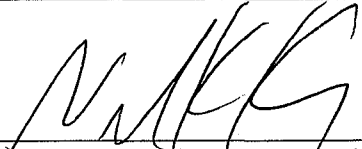


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Attorneys for Petitioner  
Indiana-American Water Company, Inc.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served by First Class United States Mail, postage prepaid, upon the following, this <sup>14<sup>th</sup></sup>~~12<sup>th</sup>~~ day of February, 2007.

Daniel M. Le Vay Randall Helman Office of the Utility Consumer Counselor 100 North Senate Avenue, Room N501 Indiana Government Center North Indianapolis, Indiana 46204	David M. Austgen Austgen Kuiper & Associates, P.C. 130 North Main Street Crown Point, Indiana 46307
Peter L. Latton Clayton C. Miller Elizabeth A. Harriman Baker & Daniels, LLP 300 North Meridian Street, Suite 2700 Indianapolis, Indiana 46204	Christopher B. Gambill Wagner, Crawford and Gambill P.O. Box 1897 Terre Haute, Indiana 47808-1897
Bette J. Dodd Lewis & Kappes, P.C. One American Square, Suite 2500 Indianapolis, Indiana 46282	

  
\_\_\_\_\_  
Nicholas K. Kile

**Petitioner's Exhibit DKB**

**INDIANA AMERICAN WATER CO., INC.**

**IURC CAUSE NO. 43187**

**TESTIMONY OF  
DAVID K. BAKER**

**ON**

**SUMMARY OF RELIEF REQUESTED, REASONS FOR  
REQUEST, ORGANIZATIONAL STRUCTURE, AND  
AMERICAN WATER WORKS DIVESTITURE**

**DIRECT TESTIMONY**

**OF**

**DAVID K. BAKER**

**CAUSE NO. 43187**

**WITNESS IDENTIFICATION AND BACKGROUND**

**Q. Please state your name and business address.**

A. My name is David K. Baker, and my business address is Indiana-American Water Company, Inc., 555 East County Line Road, Suite 201, Greenwood, Indiana 46143.

**Q. Mr. Baker, what is your position with Indiana American Water Company?**

A. I am the new President of Indiana-American Water Company ("Indiana American" or "IAWC"), located in the Greenwood office as discussed in the testimony of Terry L. Goriold that was originally prefiled in this case and that I am, with necessary revisions, adopting as my own.

**Q. What is your educational background?**

A. I received a Bachelor of Science degree in Business Management from Indiana University. I received a Masters of Business Administration from St. Francis University with a concentration in Finance. I am also a graduate of the RWE AG International Management Program and have graduated Levels 1 and 2 for certification in the University of Oklahoma's Economic Development Program.

1 Finally, I have completed 12 post graduate course hours in accounting at the  
2 University of Eastern Kentucky.

3  
4 **Q. Please discuss your professional background.**

5 A. I was named President of Indiana American on January 1, 2007. From 2004 to  
6 2007, I was the Vice President and Regional Director for the Central Region of  
7 the American Water Works Company, Inc. ("American Water"). In this capacity, I  
8 led the Business Development function for our affiliates in Missouri, Iowa, Illinois,  
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11 growth team following American Water's acquisition by RWE. From 2001 to  
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2    A.    As President of Indiana American, I report to the Regional President and serve  
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4       organization that is responsible for maintaining IAWC's financial health;  
5       enhancing the operating reliability and efficiency of IAWC; and for assuring that  
6       all functions (e.g., planning, engineering, construction, production, distribution,  
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8       compliance with all local, state and federal laws and regulations, and standards  
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10      out the business strategy for IAWC and incorporating that strategy into its  
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21

22

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#### **RELIEF REQUESTED AND SUMMARY OF WITNESSES**

24   **Q.    What relief is Indiana American seeking in this Cause?**

1 A. Indiana American is seeking a rate increase to produce additional revenues of  
2 \$24.7 million per year, or 17.4%. In addition, we are seeking the approval of  
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20 Gary M. VerDouw - will testify concerning revenue and expense  
21 adjustments and the proposed rate schedules.

22 Stacy R. Sagar - will testify concerning operating facilities and planned  
23 maintenance activities.

24 Daniel F. Haddock - will testify concerning reproduction cost new less  
25 depreciation.

1 Paul R. Moul - will testify concerning cost of equity.  
2 Kerry A. Heid - will testify concerning our proposed purchased power  
3 tracker.  
4 Joseph A. Van den Berg - will testify concerning E-CIS and the Customer  
5 Satisfaction Center.  
6

7 **REASONS FOR RATE REQUEST**

8 **Q. When were Indiana American's rates last approved in a general rate case?**

9 A. The Commission approved the Company's base rates by its Order issued in  
10 Cause No. 42520 on November 18, 2004, over two years ago. The Commission  
11 approved an increase of 0.4% over the rates in effect at that time.  
12

13 **Q. How had the rates that were in effect at the time of the increase in Cause**  
14 **No. 42520 been established?**

15 A. The rates which were in effect at that time consisted of the base rates that had  
16 been approved in Cause No. 42029, together with our first distribution system  
17 improvement charge ("DSIC"). That intervening DSIC had authorized an  
18 increase of 0.6% over what had been approved in Cause No. 42029.  
19

20 **Q. Since base rates were approved in Cause No. 42520, have there been**  
21 **adjustments to Petitioner's rates?**

22 A. Yes. A DSIC was approved and then adjusted one time since the November  
23 2004 Order in our last general case such that the Company's rates today are



1 1.95% higher than those approved two years ago, and 6.29% higher than those  
2 approved the prior rate case, Cause No. 42029.

3  
4 **Q. Can you comment on the impact this recent rate history has had on the**  
5 **Company's returns?**

6 A. Yes. First understand that by statute the DSIC is tied directly to actual increased  
7 costs associated with new rate base that produces no revenues. Therefore, the  
8 DSIC addresses new costs. It does not help mitigate inflationary pressures and it  
9 does not eliminate or address existing deficiencies in our returns. Excluding the  
10 DSICs, our rates today are at essentially the same level as those approved in the  
11 preceding rate case in Cause No. 42029, which were based upon a test year that  
12 ended in March, 2001. The net effect is that our returns on equity are  
13 considerably below what the capital markets require. Mr. Jenkins is setting forth  
14 in his testimony an analysis of our historic returns, which confirms the depressed  
15 earnings.

16  
17 **Q. Are the Company's costs of providing service at essentially the same level**  
18 **as those being incurred in 2000-2001?**

19 A. No. Our costs had increased in Cause No. 42520 and, as will be described by  
20 other witnesses, they have increased again in this case.

21  
22 **Q. Are there other factors besides cost increases which are causing the low**  
23 **returns on equity?**

1 A. Yes. First, as Mr. DeBoy is testifying, we have made substantial investments in  
2 rate base that have not yet been reflected in rates because they were not eligible  
3 for inclusion in the intervening DSICs. Second, as Mr. VerDouw is testifying, our  
4 revenues are down such that our adjusted test year revenues are below the pro  
5 forma operating revenues at approved rates found by the Commission in Cause  
6 No. 42520. Third, we have had many costs that were disallowed in our last case  
7 that we believe should be recovered through rates. These are costs that we  
8 have actually incurred, but were not authorized to be recovered through rates.  
9 When these factors are combined -- higher costs, reduced revenues, and  
10 additional capital investment -- low returns on equity are the result.

11  
12 **Q. What is the Company's objective in filing this case?**

13 A. As Mr. DeBoy is testifying, we have significant capital additions, planned over the  
14 next 5 years. We are anticipating that during the period we must invest an  
15 amount equivalent to almost 60% of our net original cost rate base. We cannot  
16 attract the capital for these significant improvements with our current returns on  
17 equity. It is essential that we improve our actual returns to meet the expectations  
18 of capital markets.

19  
20 **Q. What specifically are some of the components of the Company's request**  
21 **for increased rates at this time?**

22 A. There are essentially four:

23 1. The Company has added over \$66.9 million to its net utility plant  
24 with a \$29.1 million increase to net original cost rate base since the cutoff

1 date used in the last rate order. Some of this has been reflected in DSICs  
2 that were approved in Cause No. 42351, but a significant portion still has  
3 not been reflected in rates. Approximately \$1.7 million of the increased  
4 revenue requirement is attributable to the change in our total rate base.

5 2. At the time rates were approved in our last rate case, the  
6 Commission found our cost of common equity to be 9.25%. Since that  
7 time, interest rates have steadily climbed. Those increases in interest  
8 rates have caused upward pressure on our cost of common equity. As a  
9 result, we are proposing in this case a cost of common equity of 11.5%.  
10 The increase in the cost of common equity produces an additional  
11 revenue requirement over and above what was approved in the last rate  
12 case of \$7.9 million.

13 3. Higher operating costs and lower operating revenues. Our  
14 adjusted general operation and maintenance expenses are approximately  
15 \$11.5 million higher during the test year than the operation and  
16 maintenance expenses recognized in Cause No. 42520. At the same  
17 time, our adjusted test year revenues were more than \$0.7 million below  
18 the revenues (excluding DSIC) that our rates in Cause No. 42520 were  
19 calculated to produce.

20 4. In the last rate case, substantial amounts of investment and  
21 expense were disallowed even though these were investments actually  
22 made by the Company. With respect to the investment in E-CIS and the  
23 Southern Indiana Operation Treatment Center, the Commission indicated  
24 a desire to see further information upon which it could complete its  
25 analysis. In this case, the Company will present that further information.  
26 The revenue requirement associated with E-CIS and the Southern Indiana  
27 Operation Treatment Center causes an increase of approximately \$1.8  
28 million over and above what was approved in the last rate case.

29 Taken together, these four components constitute 90% of our total rate  
30 increase request.

31  
32 **Q. Is the Company proposing any ratemaking treatment for the premium to**  
33 **acquire and merge with Northwest Indiana Water Company?**

34 **A.** No. Even though we continue to believe that at least some portion of our past  
35 requests for favorable ratemaking treatment should have been approved, our  
36 request was denied in both Cause No. 42520 and Cause No. 42029. We are not

1 seeking to renew that debate in this case. I should note that due to the pooling of  
2 interest method of accounting used to record that transaction, the premium paid  
3 to acquire and merge with Northwest is not included in the analysis of our returns  
4 on book common equity that Mr. Jenkins is presenting.

### 5 6 **ORGANIZATIONAL STRUCTURE**

7 **Q. Please describe the organizational structure of the Company.**

8 A. Indiana American's service area is not like that of other Indiana water utilities.  
9 There are no other water utilities in the state, public or private, that have as broad  
10 or as geographically diverse a service area. In order to provide a consistent level  
11 of high quality service and to do so most efficiently, all of the utility operations are  
12 managed by our network operations staff who are able to proactively provide  
13 service to customers at the local level and who coordinate routine business plan  
14 initiatives as well as special problem resolution with technical corporate staff for  
15 support, guidance and direction.

16  
17 **Q. What is the technical corporate staff?**

18 A. The technical corporate staff includes those employees who have company-wide  
19 and, in some cases, multiple state responsibilities or responsibilities that relate to  
20 multiple local operations. The technical corporate staff provides technical  
21 support, guidance and direction to the local operations in the areas of  
22 Engineering, Communication, Water Quality, Human Resources, Legal Issues,  
23 Production and Loss Control.

1 Engineering and Communication staff are located in the Greenwood office and  
2 travel throughout the state as needed. The Water Quality Manager is located in  
3 the Greenwood office and coordinates multi-state and district operations.  
4 Additional Water Quality personnel are located in regional operation sites such  
5 as the Northwest Indiana Operations, Muncie and Richmond in the Eastern  
6 Indiana Operations, Terre Haute in the Central Indiana Operations and  
7 Jeffersonville/New Albany in the Southern Indiana Operations. The Water  
8 Quality personnel respond to regional operational issues as they arise.

9  
10 The Production Manager is located in the Northwest Indiana Operations office  
11 and constantly travels throughout the state as needed and coordinates multi-  
12 state and district operations.

13  
14 The Loss Control Managers for Indiana are located in the Greenwood and Gary  
15 offices and travel throughout the state as needed.

16  
17 **Q. Describe the reporting relationships from Indiana to the Central Region**  
18 **President and to you.**

19 A. The local network managers from the various operating districts report to one of  
20 four Network Operations Managers in Kokomo, Gary, New Albany, and Terre  
21 Haute, who in turn report to the State General Manager of Network who is  
22 located in the Greenwood Office. The State General Manager reports to the  
23 Regional Director of Network, who, along with the Regional Directors of

1 production, maintenance, loss control, environment and engineering, report to  
2 the Regional Vice President of Operations. The Vice President of Operations,  
3 along with me (as President of Indiana American Water) and the Regional Vice  
4 President of Finance, Legal, Human Resources, Business Development and  
5 External Affairs report to the Regional President and form the Regional Executive  
6 Management team. The functional teams described carry out the objectives and  
7 actions that support my duties as President.

8  
9 **Q. What are the areas of responsibility for each of these Network Operations**  
10 **Managers?**

11 A. The four regional Network Operation Managers are responsible for the oversight  
12 of the day to day management and operation of the Company's network water  
13 and wastewater operations in Indiana. Reporting to each of the Network  
14 Operations Managers are the local operations managers for each of the local  
15 operations in the respective regions.

16  
17 The Network Operation Manager in the Northwest Indiana Operations is located  
18 in Gary, and is responsible for distribution of water and the quality of service to  
19 the communities of Gary, Hobart, Merrillville, Burns Harbor, Porter, Dunes Acres,  
20 Portage, Ogden Dunes, Chesterton, Winfield, Crown Point and Schererville.

21  
22 The Network Operation Manager in the Eastern Indiana Operations is located in  
23 Kokomo, and is responsible for the distribution of water and the quality of service

1 to the communities of Kokomo, Muncie, Richmond, Winchester, Wabash,  
2 Somerset, Summitville, Warsaw and West Lafayette.

3  
4 The Network Operation Manager in the Central Indiana Operations is located in  
5 Terre Haute, and is responsible for the distribution of water and the quality of  
6 service to the communities of Noblesville, Crawfordsville, Shelbyville,  
7 Greenwood, Franklin, Mooresville, Terre Haute, Farmersburg and Sullivan.

8  
9 The Network Operation Manager in the Southern Indiana Operations is located in  
10 New Albany, and is responsible for distribution of water and the quality of service  
11 to the communities of Jeffersonville, New Albany, Seymour and Newburgh.

12  
13 In addition to the State General Manager of Network, a Business Process  
14 Supervisor is located in Greenwood, Indiana and is responsible for the  
15 development, review and management of capital and operating budgets and  
16 control of expenditures. The State General Manager is also the point of contract  
17 for the Indiana Utility Regulatory Commission ("IURC") for routine matters and is  
18 responsible for the investigation and resolution of customer complaints

19  
20 **American Water Works Divestiture**

21 **Q. What is the corporate history of Indiana American?**

22 A. Prior to 1983, American Water Works owned the common stock of five water  
23 utility subsidiaries operating in Indiana, which provided service in and around  
24 Kokomo, Muncie, Richmond, Seymour, Sullivan and Terre Haute. On May 1,

1 1983, four of these corporations were merged into the remaining corporation,  
2 Kokomo Water Works Company, which simultaneously changed its corporate  
3 name to Indiana-American Water Company, Inc.  
4

5 On August 31, 1993, Indiana American acquired the common stock of ICWC  
6 Holdings Inc. which owned all of the common stock of Indiana Cities. The  
7 acquisition was made pursuant to Commission approvals granted by its Order in  
8 Cause No. 39669 dated July 7, 1993. ICWC Holdings, Inc. was subsequently  
9 dissolved, making Indiana Cities a direct subsidiary of Indiana American.  
10 Pursuant to the Commission's order in Cause No. 39669, Indiana American and  
11 Indiana Cities merged on January 1, 1995.  
12

13 In 1996, Indiana American acquired the sewer utility system of Farmington  
14 Utilities, Inc. pursuant to approvals granted in the Commission's Order dated  
15 October 2, 1996 in Cause No. 40442. Upon that acquisition, Indiana American  
16 commenced providing sewer utility service in an area in Delaware County near  
17 Muncie. The acquisition of the water utility serving the Town of Farmersburg  
18 occurred in 1998 in accordance with the Commission's Order in Cause No.  
19 41290. This operation was combined into our Wabash Valley Operation.  
20 Effective January 1, 2000, the former Northwest Indiana Water Company, which  
21 had recently acquired Peoples Water Company, Inc. and the water utility  
22 properties of Shorewood Forest Utilities, Inc. ("Shorewood"), merged into Indiana  
23 American. On February 1, 2000, Indiana American also acquired and merged



1 with United Water Indiana Inc. and United Water West Lafayette Inc. (collectively  
2 "United"). In addition, Indiana American acquired the part of the water system of  
3 Watson Rural Water Corporation serving the Cementville area, the water  
4 systems owned by Prairieton Water Company, Turkey Creek Utilities, Westwood  
5 Water Company, the Town of Dune Acres, and the Freeman Field water system  
6 in Seymour. For a map of Indiana American's current operations please refer to  
7 Petitioner's Exhibit SRS-1 sponsored by Mr. Sagar.

8  
9 **Q. What is Indiana American's relationship to American Water and, in turn,**  
10 **RWE AG ("RWE")?**

11 A. Indiana American is a wholly-owned subsidiary of American Water. American  
12 Water is a wholly owned subsidiary of Thames Water Aqua Holdings GmbH  
13 ("Thames Holdings"). Thames Holdings is a wholly owned subsidiary of RWE.

14  
15 **Q. Is the relationship with RWE expected to change?**

16 A. Yes. In November, 2005, RWE announced plans to divest American Water. In  
17 March, 2006, RWE announced that the divestiture would be accomplished  
18 through an initial public offering ("IPO") in the United States for the shares of  
19 American Water. The IPO will result in American Water again being a publicly  
20 traded company.

21  
22 **Q. What is the status of the IPO?**

1 A. The sale of shares of American Water in an IPO requires approval by the public  
2 utility commission in certain states as well as the filing of a registration statement  
3 with the U.S. Securities and Exchange Commission. American Water has filed  
4 petitions in thirteen states for approval of RWE's divestiture or change of  
5 ownership of American Water and its subsidiaries. <sup>Some</sup> ~~Four~~ states have approved  
6 the transaction. The remaining petitions are continuing through the various state  
7 proceedings. While American Water cannot predict when these proceedings will  
8 be completed, this process is anticipated to be completed in 2007. Thereafter,  
9 American Water will proceed with the IPO process.

10  
11 At this time, American Water is restricted in what it may disclose about the actual  
12 terms of the IPO and other details of this process. U.S. securities laws and  
13 regulations impose strict restrictions on American Water, its local operating  
14 subsidiaries and employees as to what may and may not be said about the  
15 Company and the IPO process. However, all of this information will eventually  
16 be publicized at the time of the IPO.

17  
18 **Q. What impact will the IPO have on Indiana American and this rate case?**

19 A. None. Indiana American will continue to exist as a separate corporate entity.  
20 The shareholders of American Water will change, but I do not foresee that  
21 change producing any effect on our cost or management structure or the manner  
22 in which we do our business. We have a long history of successful operation of  
23 Indiana American as a subsidiary of a publicly traded American Water parent.

1

2 **Q. Does this conclude your direct testimony?**

3 **A. Yes at this time.**

4

**INDIANA AMERICAN WATER CO., INC.**

**IURC CAUSE NO. 43187**

**TESTIMONY OF  
DAVID K. BAKER**

Deleted: TERRY L. GLORIOD

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Petitioner's Exhibit DKB

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OF

DAVID K. BAKER

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CAUSE NO. 43187

WITNESS IDENTIFICATION AND BACKGROUND

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20 Gary M. VerDouw - will testify concerning revenue and expense  
21 adjustments and the proposed rate schedules.

22 Stacy R. Sagar - will testify concerning operating facilities and planned  
23 maintenance activities.

24 Daniel F. Haddock - will testify concerning reproduction cost new less  
25 depreciation.

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1 Paul R. Moul - will testify concerning cost of equity.

2 Kerry A. Heid - will testify concerning our proposed purchased power  
3 tracker.

4 Joseph A. Van den Berg - will testify concerning E-CIS and the Customer  
5 Satisfaction Center.

6  
7 **REASONS FOR RATE REQUEST**

8 **Q. When were Indiana American's rates last approved in a general rate case?**

9 A. The Commission approved the Company's base rates by its Order issued in  
10 Cause No. 42520 on November 18, 2004, over two years ago. The Commission  
11 approved an increase of 0.4% over the rates in effect at that time.

12  
13 **Q. How had the rates that were in effect at the time of the increase in Cause  
14 No. 42520 been established?**

15 A. The rates which were in effect at that time consisted of the base rates that had  
16 been approved in Cause No. 42029, together with our first distribution system  
17 improvement charge ("DSIC"). That intervening DSIC had authorized an  
18 increase of 0.6% over what had been approved in Cause No. 42029.

19  
20 **Q. Since base rates were approved in Cause No. 42520, have there been  
21 adjustments to Petitioner's rates?**

22 A. Yes. A DSIC was approved and then adjusted one time since the November  
23 2004 Order in our last general case such that the Company's rates today are

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1 1.95% higher than those approved two years ago, and 6.29% higher than those  
2 approved the prior rate case, Cause No. 42029.

3  
4 **Q. Can you comment on the impact this recent rate history has had on the**  
5 **Company's returns?**

6 A. Yes. First understand that by statute the DSIC is tied directly to actual increased  
7 costs associated with new rate base that produces no revenues. Therefore, the  
8 DSIC addresses new costs. It does not help mitigate inflationary pressures and it  
9 does not eliminate or address existing deficiencies in our returns. Excluding the  
10 DSICs, our rates today are at essentially the same level as those approved in the  
11 preceding rate case in Cause No. 42029, which were based upon a test year that  
12 ended in March, 2001. The net effect is that our returns on equity are  
13 considerably below what the capital markets require. Mr. Jenkins is setting forth  
14 in his testimony an analysis of our historic returns, which confirms the depressed  
15 earnings.

16  
17 **Q. Are the Company's costs of providing service at essentially the same level**  
18 **as those being incurred in 2000-2001?**

19 A. No. Our costs had increased in Cause No. 42520 and, as will be described by  
20 other witnesses, they have increased again in this case.

21  
22 **Q. Are there other factors besides cost increases which are causing the low**  
23 **returns on equity?**

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1 A. Yes. First, as Mr. DeBoy is testifying, we have made substantial investments in  
2 rate base that have not yet been reflected in rates because they were not eligible  
3 for inclusion in the intervening DSICs. Second, as Mr. VerDouw is testifying, our  
4 revenues are down such that our adjusted test year revenues are below the pro  
5 forma operating revenues at approved rates found by the Commission in Cause  
6 No. 42520. Third, we have had many costs that were disallowed in our last case  
7 that we believe should be recovered through rates. These are costs that we  
8 have actually incurred, but were not authorized to be recovered through rates.  
9 When these factors are combined -- higher costs, reduced revenues, and  
10 additional capital investment -- low returns on equity are the result.  
11

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12 Q. What is the Company's objective in filing this case?

13 A. As Mr. DeBoy is testifying, we have significant capital additions, planned over the  
14 next 5 years. We are anticipating that during the period we must invest an  
15 amount equivalent to almost 60% of our net original cost rate base. We cannot  
16 attract the capital for these significant improvements with our current returns on  
17 equity. It is essential that we improve our actual returns to meet the expectations  
18 of capital markets.  
19

20 Q. What specifically are some of the components of the Company's request  
21 for increased rates at this time?

22 A. There are essentially four:

23 1. The Company has added over \$66.9 million to its net utility plant  
24 with a \$29.1 million increase to net original cost rate base since the cutoff

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1 date used in the last rate order. Some of this has been reflected in DSICs  
2 that were approved in Cause No. 42351, but a significant portion still has  
3 not been reflected in rates. Approximately \$1.7 million of the increased  
4 revenue requirement is attributable to the change in our total rate base.

5 2. At the time rates were approved in our last rate case, the  
6 Commission found our cost of common equity to be 9.25%. Since that  
7 time, interest rates have steadily climbed. Those increases in interest  
8 rates have caused upward pressure on our cost of common equity. As a  
9 result, we are proposing in this case a cost of common equity of 11.5%.  
10 The increase in the cost of common equity produces an additional  
11 revenue requirement over and above what was approved in the last rate  
12 case of \$7.9 million.

13 3. Higher operating costs and lower operating revenues. Our  
14 adjusted general operation and maintenance expenses are approximately  
15 \$11.5 million higher during the test year than the operation and  
16 maintenance expenses recognized in Cause No. 42520. At the same  
17 time, our adjusted test year revenues were more than \$0.7 million below  
18 the revenues (excluding DSIC) that our rates in Cause No. 42520 were  
19 calculated to produce.

20 4. In the last rate case, substantial amounts of investment and  
21 expense were disallowed even though these were investments actually  
22 made by the Company. With respect to the investment in E-CIS and the  
23 Southern Indiana Operation Treatment Center, the Commission indicated  
24 a desire to see further information upon which it could complete its  
25 analysis. In this case, the Company will present that further information.  
26 The revenue requirement associated with E-CIS and the Southern Indiana  
27 Operation Treatment Center causes an increase of approximately \$1.8  
28 million over and above what was approved in the last rate case.

29 Taken together, these four components constitute 90% of our total rate  
30 increase request.

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31  
32 **Q. Is the Company proposing any ratemaking treatment for the premium to**  
33 **acquire and merge with Northwest Indiana Water Company?**

34 **A.** No. Even though we continue to believe that at least some portion of our past  
35 requests for favorable ratemaking treatment should have been approved, our  
36 request was denied in both Cause No. 42520 and Cause No. 42029. We are not

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1 seeking to renew that debate in this case. I should note that due to the pooling of  
2 interest method of accounting used to record that transaction, the premium paid  
3 to acquire and merge with Northwest is not included in the analysis of our returns  
4 on book common equity that Mr. Jenkins is presenting.

#### 6 **ORGANIZATIONAL STRUCTURE**

7 **Q. Please describe the organizational structure of the Company.**

8 A. Indiana American's service area is not like that of other Indiana water utilities.  
9 There are no other water utilities in the state, public or private, that have as broad  
10 or as geographically diverse a service area. In order to provide a consistent level  
11 of high quality service and to do so most efficiently, all of the utility operations are  
12 managed by our network operations staff who are able to proactively provide  
13 service to customers at the local level and who coordinate routine business plan  
14 initiatives as well as special problem resolution with technical corporate staff for  
15 support, guidance and direction.

16  
17 **Q. What is the technical corporate staff?**

18 A. The technical corporate staff includes those employees who have company-wide  
19 and, in some cases, multiple state responsibilities or responsibilities that relate to  
20 multiple local operations. The technical corporate staff provides technical  
21 support, guidance and direction to the local operations in the areas of  
22 Engineering, Communication, Water Quality, Human Resources, Legal Issues,  
23 Production and Loss Control.

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1 Engineering and Communication staff are located in the Greenwood office and  
2 travel throughout the state as needed. The Water Quality Manager is located in  
3 the Greenwood office and coordinates multi-state and district operations.  
4 Additional Water Quality personnel are located in regional operation sites such  
5 as the Northwest Indiana Operations, Muncie and Richmond in the Eastern  
6 Indiana Operations, Terre Haute in the Central Indiana Operations and  
7 Jeffersonville/New Albany in the Southern Indiana Operations. The Water  
8 Quality personnel respond to regional operational issues as they arise.

9  
10 The Production Manager is located in the Northwest Indiana Operations office  
11 and constantly travels throughout the state as needed and coordinates multi-  
12 state and district operations.

13  
14 The Loss Control Managers for Indiana are located in the Greenwood and Gary  
15 offices and travel throughout the state as needed.

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16  
17 **Q. Describe the reporting relationships from Indiana to the Central Region**  
18 **President and to you.**

19 A. The local network managers from the various operating districts report to one of  
20 four Network Operations Managers in Kokomo, Gary, New Albany, and Terre  
21 Haute, who in turn report to the State General Manager of Network who is  
22 located in the Greenwood Office. The State General Manager reports to the  
23 Regional Director of Network, who, along with the Regional Directors of

Deleted: to a Regional Director of Network in the Corporate Office in St. Louis. The Regional Manager reports to the Vice President of Operations who in turn reports to me

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1 production, maintenance, loss control, environment and engineering, report to  
2 the Regional Vice President of Operations. The Vice President of Operations,  
3 along with me (as President of Indiana American Water) and the Regional Vice  
4 President of Finance, Legal, Human Resources, Business Development and  
5 External Affairs report to the Regional President and form the Regional Executive  
6 Management team. The functional teams described carry out the objectives and  
7 actions that support my duties as President,

**Deleted:** . This is the same as the traditional reporting relationships in 2003 when Indiana American was a part of the East Central Region. Similarly, the other functions such as Production, Maintenance, Environmental, Loss Control and Engineering report to a Regional Director who reports to the Vice President of Operations who reports to me.

9 **Q. What are the areas of responsibility for each of these Network Operations**  
10 **Managers?**

11 A. The four regional Network Operation Managers are responsible for the oversight  
12 of the day to day management and operation of the Company's network water  
13 and wastewater operations in Indiana. Reporting to each of the Network  
14 Operations Managers are the local operations managers for each of the local  
15 operations in the respective regions.

16  
17 The Network Operation Manager in the Northwest Indiana Operations is located  
18 in Gary, and is responsible for distribution of water and the quality of service to  
19 the communities of Gary, Hobart, Merrillville, Burns Harbor, Porter, Dunes Acres,  
20 Portage, Ogden Dunes, Chesterton, Winfield, Crown Point and Schererville.

21  
22 The Network Operation Manager in the Eastern Indiana Operations is located in  
23 Kokomo, and is responsible for the distribution of water and the quality of service

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1 to the communities of Kokomo, Muncie, Richmond, Winchester, Wabash,  
2 Somerset, Summitville, Warsaw and West Lafayette.

3  
4 The Network Operation Manager in the Central Indiana Operations is located in  
5 Terre Haute, and is responsible for the distribution of water and the quality of  
6 service to the communities of Noblesville, Crawfordsville, Shelbyville,  
7 Greenwood, Franklin, Mooresville, Terre Haute, Farmersburg and Sullivan.

8  
9 The Network Operation Manager in the Southern Indiana Operations is located in  
10 New Albany, and is responsible for distribution of water and the quality of service  
11 to the communities of Jeffersonville, New Albany, Seymour and Newburgh.

12  
13 In addition to the State General Manager of Network, a Business Process  
14 Supervisor is located in Greenwood, Indiana and is responsible for the  
15 development, review and management of capital and operating budgets and  
16 control of expenditures. The State General Manager is also the point of contract  
17 for the Indiana Utility Regulatory Commission ("IURC") for routine matters and is  
18 responsible for the investigation and resolution of customer complaints

19  
20 **American Water Works Divestiture**

21 **Q. What is the corporate history of Indiana American?**

22 A. Prior to 1983, American Water Works owned the common stock of five water  
23 utility subsidiaries operating in Indiana, which provided service in and around  
24 Kokomo, Muncie, Richmond, Seymour, Sullivan and Terre Haute. On May 1,

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<#>Is there currently an Officer level employee in the State of Indiana?¶  
<#>We have added a position of President of Indiana American in 2006 which is an officer level position and is located in the Greenwood Office. As soon as the position is filled, expected in late 2006, I will resign my position as President of Indiana American. The reporting relationships described above will be enhanced by the addition of a resident president who will report to me and who will coordinate activities with the various regional directors. This resident president will also serve as a senior officer contact for the IURC as well as other state government agencies. I will also continue to be available to the IURC as a senior management employee of American Water, Indiana American's parent Company.¶

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1 1983, four of these corporations were merged into the remaining corporation,  
2 Kokomo Water Works Company, which simultaneously changed its corporate  
3 name to Indiana-American Water Company, Inc.  
4

5 On August 31, 1993, Indiana American acquired the common stock of ICWC  
6 Holdings Inc. which owned all of the common stock of Indiana Cities. The  
7 acquisition was made pursuant to Commission approvals granted by its Order in  
8 Cause No. 39669 dated July 7, 1993. ICWC Holdings, Inc. was subsequently  
9 dissolved, making Indiana Cities a direct subsidiary of Indiana American.  
10 Pursuant to the Commission's order in Cause No. 39669, Indiana American and  
11 Indiana Cities merged on January 1, 1995.  
12

13 In 1996, Indiana American acquired the sewer utility system of Farmington  
14 Utilities, Inc. pursuant to approvals granted in the Commission's Order dated  
15 October 2, 1996 in Cause No. 40442. Upon that acquisition, Indiana American  
16 commenced providing sewer utility service in an area in Delaware County near  
17 Muncie. The acquisition of the water utility serving the Town of Farmersburg  
18 occurred in 1998 in accordance with the Commission's Order in Cause No.  
19 41290. This operation was combined into our Wabash Valley Operation.  
20 Effective January 1, 2000, the former Northwest Indiana Water Company, which  
21 had recently acquired Peoples Water Company, Inc. and the water utility  
22 properties of Shorewood Forest Utilities, Inc. ("Shorewood"), merged into Indiana  
23 American. On February 1, 2000, Indiana American also acquired and merged

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1 with United Water Indiana Inc. and United Water West Lafayette Inc. (collectively  
2 "United"). In addition, Indiana American acquired the part of the water system of  
3 Watson Rural Water Corporation serving the Cementville area, the water  
4 systems owned by Prairieton Water Company, Turkey Creek Utilities, Westwood  
5 Water Company, the Town of Dune Acres, and the Freeman Field water system  
6 in Seymour. For a map of Indiana American's current operations please refer to  
7 Petitioner's Exhibit SRS-1 sponsored by Mr. Sagar.

8  
9 **Q. What is Indiana American's relationship to American Water and, in turn,**  
10 **RWE AG ("RWE")?**

11 A. Indiana American is a wholly-owned subsidiary of American Water. American  
12 Water is a wholly owned subsidiary of Thames Water Aqua Holdings GmbH  
13 ("Thames Holdings"). Thames Holdings is a wholly owned subsidiary of RWE.

14  
15 **Q. Is the relationship with RWE expected to change?**

16 A. Yes. In November, 2005, RWE announced plans to divest American Water. In  
17 March, 2006, RWE announced that the divestiture would be accomplished  
18 through an initial public offering ("IPO") in the United States for the shares of  
19 American Water. The IPO will result in American Water again being a publicly  
20 traded company.

21  
22 **Q. What is the status of the IPO?**

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1 A. The sale of shares of American Water in an IPO requires approval by the public  
2 utility commission in certain states as well as the filing of a registration statement  
3 with the U.S. Securities and Exchange Commission. American Water has filed  
4 petitions in thirteen states for approval of RWE's divestiture or change of  
5 ownership of American Water and its subsidiaries. Four states have approved  
6 the transaction. The remaining petitions are continuing through the various state  
7 proceedings. While American Water cannot predict when these proceedings will  
8 be completed, this process is anticipated to be completed in 2007. Thereafter,  
9 American Water will proceed with the IPO process.

10  
11 At this time, American Water is restricted in what it may disclose about the actual  
12 terms of the IPO and other details of this process. U.S. securities laws and  
13 regulations impose strict restrictions on American Water, its local operating  
14 subsidiaries and employees as to what may and may not be said about the  
15 Company and the IPO process. However, all of this information will eventually  
16 be publicized at the time of the IPO.

17  
18 **Q. What impact will the IPO have on Indiana American and this rate case?**

19 A. None. Indiana American will continue to exist as a separate corporate entity.  
20 The shareholders of American Water will change, but I do not foresee that  
21 change producing any effect on our cost or management structure or the manner  
22 in which we do our business. We have a long history of successful operation of  
23 Indiana American as a subsidiary of a publicly traded American Water parent.

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2 **Q. Does this conclude your direct testimony?**

3 **A. Yes at this time.**

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